TAX CREDIT FOR HIRING NEW EMPLOYEES

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The restaurant industry took a massive hit during the pandemic. With statewide mandates enforcing closures, layoffs were necessary. As vaccines have become widely available, the industry is slowly making its way back to its pre-pandemic state. Unfortunately, as of April 2022, the industry is still over 1 million jobs below pre-pandemic employment levels. As a result, restaurants have started looking for ways to persuade employees to join their team by offering sign-on bonuses, flexible schedules, and nontraditional perks and benefits. These additional perks used to reel in new employees tend to be costly, so if the new employee has been unemployed for 27 weeks or more, you might be able to take advantage of the Work Opportunity Tax Credit (WOTC).

THE TAX CREDIT AND ELIGIBLE EMPLOYEES

The Work Opportunity Tax Credit (WOTC) is a federal tax credit available to employers for hiring individuals from certain targeted groups who have consistently faced significant barriers to employment. Targeted groups include Qualified IV-A recipient, Qualified Veteran, Qualified Ex-Felon, Designated Community Resident, Vocational Rehabilitation Referral, Summer Youth Employee, Supplemental Nutrition Assistance Program (SNAP, or "food stamps") recipient, Supplemental Security Income (SSI) recipient, Long-Term Family Assistance recipient, and Qualified Long-Term Unemployment recipient. To be eligible, employees must be new hires and may not be relatives or dependents of the owners, nor can the employees themselves be owners of the business.

TIME TO TAKE ADVANTAGE

Credit amounts vary upon the qualifying individual and their respective target group, but the maximum credit per individual can range from $2,400 to $9,600. With 5.7 million unemployed Americans as of April 2022 and no limit to the number of new hires who can qualify for the credit per employer, this credit may be extremely beneficial for employers. The Consolidated Appropriation Act of 2021 authorized the extension of the credit until December 31, 2025.

HOW TO APPLY

Employers must prescreen applicants to ensure they are eligible for the credit. IRS Form 8850 and ETA Form 9061 or ETA Form 9062 are required to be submitted to the state workforce agencies in which the employer's business is located within 28 calendar days after the new hire's start date. Notification of certification of the employee from the state workforce agency may take several months. Once certification is granted, the tax credit may be claimed on the IRS Form 3800 on the employers' federal tax return.

This tax credit will not only benefit the employer since gross profits will increase as the tax liability will decrease, but it may also provide opportunities to individuals who may have struggled to find a job in the past. ■

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